



**Rating** **OVERWEIGHT**  
Target price **SAR46** (12.5% upside)  
Current price **SAR40.53**

#### Key themes & implications

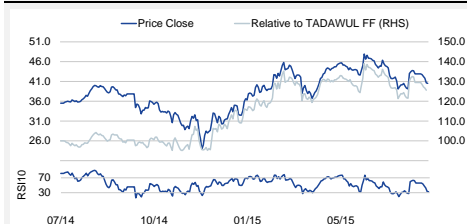
The recent developments in the commodity markets surprised many. Prices and indices of most commodities slipped to levels not seen since the financial crisis. As a result, we are revising our estimates and target price of Ma'aden to reflect these changes.

#### Valuation

	12/14A	12/15E	12/16E	12/17E
P/E (x)	31.3	44.6	32.3	18.9
P/B (x)	1.8	1.7	1.6	1.5
EV/EBITDA (x)	22.8	27.8	18.0	14.2
Dividend Yield	0.0%	0.0%	0.0%	0.0%

Source: Company data, Al Rajhi Capital

#### Performance



Source: Bloomberg, Company data, Al Rajhi Capital

## Ma'aden Updated estimates and TP

*The uneven global economic picture and weak industrial scenario in China and other emerging markets led to the commodity price plunge recently. At the company level, Ma'aden Q2 operating performance was in-line with our expectations, though net profit of SAR270mn (down 27.2% y-o-y) came below our (SAR354.5mn) estimate as well as consensus (SAR299mn) estimate due to higher than expected interest expense and lower other income. On a q-o-q basis, profits edged up 3.5% on higher sales volumes across all products. We believe that Ma'aden continues to do well on the operational side, which will drive better results in the aluminium and gold units specifically. Though volatility in earnings caused by commodity prices and ramping up of operations are expected in the near term, Ma'aden remains one of our top long-term picks in the Saudi market and is one of the nineteen stocks added to the MSCI Saudi Arabian Local Index. Changes to our estimates are depicted in the tables below. We reduce our target price to SAR46 (from SAR52) but maintain our Overweight rating on the stock.*

**Q2 results broadly in-line with estimates:** Ma'aden reported Q2 2015 results were broadly in-line with our estimates. The company posted a 26.2% y-o-y jump in revenues at SAR3bn that largely matched our SAR2.98bn forecast. Gross profit of SAR765.8mn (+1% y-o-y) was in line with our SAR766mn estimate, with gross margin contracting 6% likely a result of higher operating expenses associated with ramping up the aluminium business. Net profit, however, came below our estimate (SAR354mn) at SAR270mn due to higher than expected interest expense and lower other income.

**Product prices on the decline:** We had expected in the earlier report that Ma'aden's product prices, except aluminium, will remain under pressure in the short term. However, recent developments in global economies depressed commodity prices further.

**Change in estimates:** We are changing our estimates for this year and for 2016-17. Depressed commodity prices will impact the company's top line in the short term, though at a slower rate, since Ma'aden is expected to scale up production volumes in the aluminium and gold units.

**Conclusion and valuation:** Further decline in commodity prices remains a major downside risk to our valuation, apart from any delays on project commencement and execution. Nevertheless, we are maintaining our Overweight rating on the back of improved efficiency and planned expansions in the gold, phosphate, and aluminium units. We have updated our estimates in the tables below and reduced our target price to SAR46.

Period End (SAR)	12/13A	12/14A	12/15E	12/16E	12/17E
Revenue (mn)	6,047	10,792	11,376	12,351	14,166
Revenue Growth	8.4%	78.5%	5.4%	8.6%	14.7%
Gross profit margin	25.0%	28.9%	24.2%	27.4%	34.9%
EBITDA margin	28.1%	33.0%	30.1%	43.8%	47.2%
Net profit margin	27.8%	12.6%	9.3%	11.9%	17.7%
EPS	1.82	1.30	0.91	1.26	2.15
EPS Growth	54.2%	-28.7%	-30.0%	38.3%	70.9%

Source: Company data, Al Rajhi Capital



Figure 1 New vs. old estimates

	New estimates			Old estimates		
	2015 E	2016 E	2017 E	2015 E	2016 E	2017 E
<b>Gold</b>						
Sales vol. ('000 Oz)	204	296	385	204	296	385
Gold Price (USD/Oz)	1,147	1,090	1,212	1,190	1,175	1,180
Cost of sales (USD/Oz)	677	567	570	702	634	602
Unit Revenue ('000 SAR)	878,178	1,210,268	1,749,448	911,243	1,304,647	1,703,258
<b>Phosphate</b>						
<b>DAP</b>						
Sales vol. ('000 ton)	2,423	2,700	2,760	2,423	2,700	2,760
US\$/ton	450	490	510	450	490	510
Revenue ('000 SAR)	4,087,969	4,961,250	5,278,500	4,087,969	4,961,250	5,278,500
<b>Ammonia</b>						
Sales vol. ('000 ton)	621	436	436	621	436	436
US\$/ton	448	470	470	448	430	450
Revenue ('000 SAR)	1,043,784	768,450	768,450	1,043,784	703,050	735,750
Unit Revenue ('000 SAR)	5,131,753	5,729,700	6,174,203	5,131,753	5,664,300	6,141,503
<b>Aluminium</b>						
Sales vol. ('000 ton)	560	444	377	560	444	377
US\$/ton plus premium	1,940	1,812	2,080	2,314	2,428	2,590
Revenue ('000 SAR)	4,073,300	3,016,980	2,943,720	4,859,400	4,042,620	3,665,498
<b>Rolling products</b>						
Sales vol. ('000 ton)	140	296	363	140	296	363
US\$/ton	2,134	1,993	2,288	2,545	2,671	2,849
Revenue ('000 SAR)	1,120,158	2,212,452	3,111,108	1,336,335	2,964,588	3,873,928
Unit Revenue ('000 SAR)	5,193,458	5,229,432	6,054,828	6,195,735	7,007,208	7,539,425

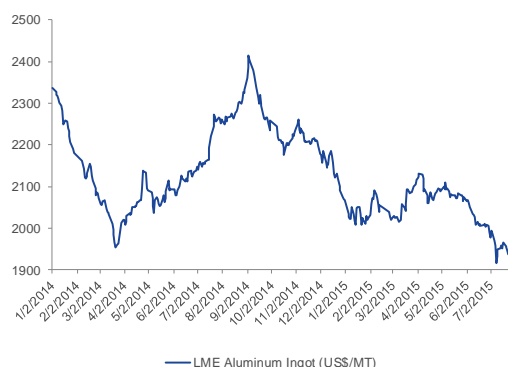
Source: Company data, Al Rajhi Capital

Figure 2 Gold spot price (USD/Oz)



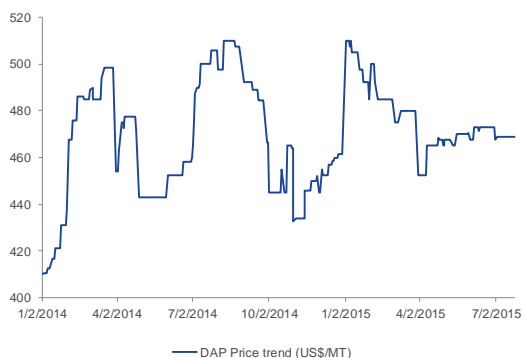
Source: Bloomberg, Al Rajhi Capital

Figure 3 LME Aluminum Ingot spot price (US\$/MT)



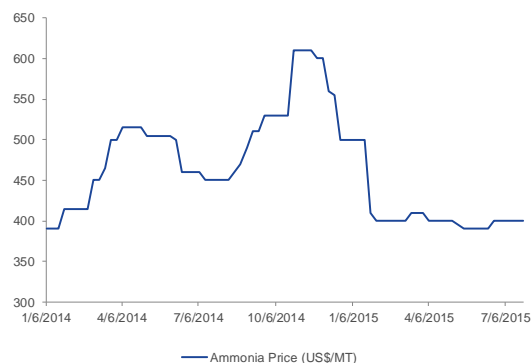
Source: Bloomberg, Al Rajhi Capital

Figure 4 DAP price trend (US\$/MT)



Source: Bloomberg, Al Rajhi Capital

Figure 5 Ammonia price trend (US\$/MT)



Source: Bloomberg, Al Rajhi Capital



Income Statement (SARmn)	12/13A	12/14A	12/15E	12/16E	12/17E
<b>Revenue</b>	<b>6,047</b>	<b>10,792</b>	<b>11,376</b>	<b>12,351</b>	<b>14,166</b>
Cost of Goods Sold	(4,538)	(7,677)	(8,617)	(8,963)	(9,221)
<b>Gross Profit</b>	<b>1,509</b>	<b>3,115</b>	<b>2,758</b>	<b>3,388</b>	<b>4,945</b>
Government Charges					
S.G. & A. Costs	(906)	(1,118)	(1,115)	(1,210)	(1,388)
<b>Operating EBIT</b>	<b>604</b>	<b>1,997</b>	<b>1,643</b>	<b>2,177</b>	<b>3,557</b>
Cash Operating Costs	(4,345)	(7,234)	(7,952)	(6,939)	(7,485)
EBITDA	1,702	3,558	3,424	5,412	6,681
Depreciation and Amortisation	(1,098)	(1,561)	(1,780)	(3,235)	(3,125)
<b>Operating Profit</b>	<b>604</b>	<b>1,997</b>	<b>1,643</b>	<b>2,177</b>	<b>3,557</b>
Net financing income/(costs)	(156)	(292)	(393)	(393)	(392)
Forex and Related Gains					
Provisions	-	-	-	-	-
Other Income					
Other Expenses	1,427	102	166	166	166
<b>Net Profit Before Taxes</b>	<b>1,872</b>	<b>1,781</b>	<b>1,392</b>	<b>1,925</b>	<b>3,306</b>
Taxes	(55)	(44)	(35)	(48)	(99)
Minority Interests	(134)	(379)	(296)	(410)	(700)
<b>Net profit available to shareholders</b>	<b>1,682</b>	<b>1,357</b>	<b>1,061</b>	<b>1,467</b>	<b>2,506</b>
Dividends	-	-	-	-	0
Transfer to Capital Reserve					
	<b>12/13A</b>	<b>12/14A</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>
Adjusted Shares Out (mn)	925	1,168	1,168	1,168	1,168
CFPS (SAR)	3.15	3.15	2.69	4.37	5.42
EPS (SAR)	1.819	1.297	0.908	1.255	2.145
DPS (SAR)	0.000	0.000	0.000	0.000	(0.000)
<b>Growth</b>	<b>12/13A</b>	<b>12/14A</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>
Revenue Growth	8.4%	78.5%	5.4%	8.6%	14.7%
Gross Profit Growth	-41.8%	106.4%	-11.5%	22.8%	46.0%
EBITDA Growth	-38.0%	109.0%	-3.8%	58.1%	23.5%
Operating Profit Growth	-65.7%	230.8%	-17.7%	32.5%	63.4%
Net Profit Growth	54.2%	-19.3%	-21.9%	38.3%	70.9%
EPS Growth	54.2%	-28.7%	-30.0%	38.3%	70.9%
<b>Margins</b>	<b>12/13A</b>	<b>12/14A</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>
Gross profit margin	25.0%	28.9%	24.2%	27.4%	34.9%
EBITDA margin	28.1%	33.0%	30.1%	43.8%	47.2%
Operating Margin	10.0%	18.5%	14.4%	17.6%	25.1%
Pretax profit margin	30.9%	16.5%	12.2%	15.6%	23.3%
Net profit margin	27.8%	12.6%	9.3%	11.9%	17.7%
<b>Other Ratios</b>	<b>12/13A</b>	<b>12/14A</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>
ROCE	1.1%	2.6%	2.1%	2.7%	4.3%
ROIC	1.5%	3.7%	2.5%	3.0%	4.6%
ROE	8.9%	5.8%	3.9%	5.1%	8.2%
Effective Tax Rate	3.0%	2.5%	2.5%	2.5%	3.0%
Capex/Sales	212.4%	109.2%	80.0%	60.0%	30.0%
Dividend Payout Ratio	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Valuation Measures</b>	<b>12/13A</b>	<b>12/14A</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>
P/E (x)	22.3	31.3	44.6	32.3	18.9
P/CF (x)	12.9	12.9	15.1	9.3	7.5
P/B (x)	1.9	1.8	1.7	1.6	1.5
EV/Sales (x)	12.2	7.5	8.4	7.9	6.7
EV/EBITDA (x)	43.3	22.8	27.8	18.0	14.2
EV/EBIT (x)	122.0	40.7	57.8	44.7	26.7
EV/IC (x)	1.4	1.4	1.3	1.3	1.3
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Al Rajhi Capital



## Disclaimer and additional disclosures for Equity Research

### Disclaimer

This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.

### Additional disclosures

#### 1. Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"Overweight": Our target price is more than 10% above the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 6-9 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

#### 2. Definitions

"Time horizon": Our analysts make recommendations on a 6-9 month time horizon. In other words, they expect a given stock to reach their target price within that time.

"Fair value": We estimate fair value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

"Target price": This may be identical to estimated fair value per share, but is not necessarily the same. There may be very good reasons why a share price is unlikely to reach fair value within our time horizon. In such a case we set a target price which differs from estimated fair value per share, and explain our reasons for doing so.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

### Contact us

Pritish Devassy, CFA  
Senior Research Analyst  
Tel : +966 1 211 9370  
Email: devassy@alrajhi-capital.com

Al Rajhi Capital is licensed by the Saudi Arabian Capital Market Authority, License No. 37/07068.